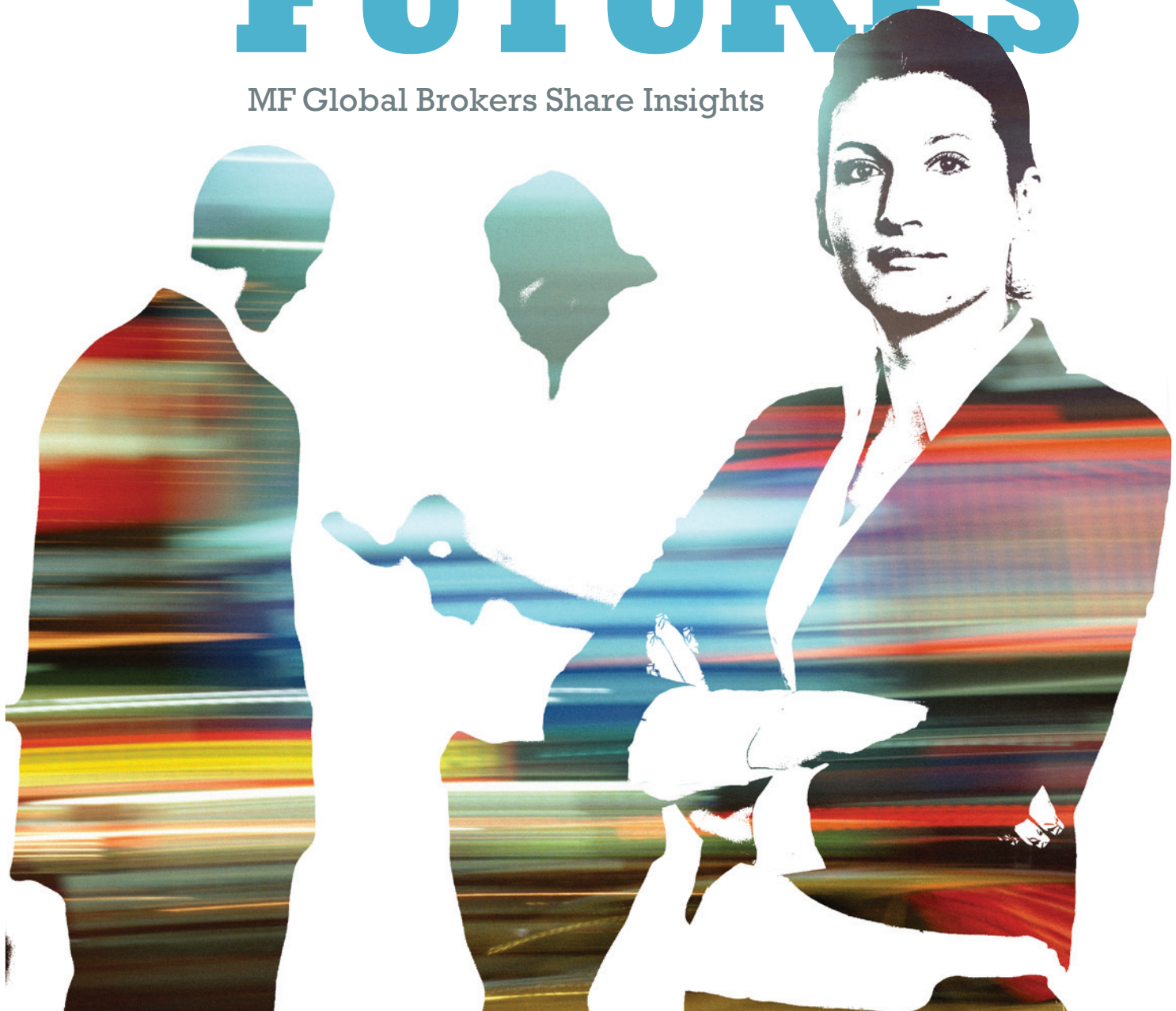


# ASK A BROKER FUTURES

MF Global Brokers Share Insights



# Ask a broker for sound advice

In today's investment arena, MF Global boasts a team of more than 40 market strategists with an average of more than 10 years of experience in our MF Global broker-assisted division. This reference guide provides you with answers to common questions about futures trading some of our MF Global professionals have received over the years. It's by no means exhaustive, but we hope you find an answer to something that's been on your mind. If you don't, we encourage you to contact one of our market strategists directly.

Contact information is included at the end of each article. You can go to [mfglobal.com](http://mfglobal.com) and click on MF Global brokers in the drop-down menu for more information about MF Global broker-assisted, and to see bios and contact information for our professionals not represented in this guide. Our MF Global strategists monitor the markets, provide market analysis and insight, and create customized trading strategies for their clients daily. It's their goal to make your trading vision a reality.

If you purchase a commodity option you may sustain a total loss of the premium and of all transaction costs. If you purchase or sell a commodity futures contract or sell a commodity option or engage in off-exchange foreign currency trading you may sustain a total loss of the initial margin funds or security deposit and any additional funds that you deposit with your broker to establish or maintain your position. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the requested funds within the prescribed time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account. Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move." The placement of contingent orders by you or your trading advisor, such as a "stop-loss" or "stop-limit" order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. A "spread" position may not be less risky than a simple "long" or "short" position. The high degree of leverage that is often obtainable in commodity interest trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. Some cases, managed commodity accounts are subject to substantial charges for management and advisory fees. It may be necessary for those accounts that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets.

## SUCCESSFUL STRATEGIES

The traders that persevere year after year are those that preserve capital when the markets don't go their way, and when their trades aren't winners. For example, they are the ones who reduce their size during the holidays when the markets may be less liquid, or stop and regroup during a losing streak.

Successful traders realize buying the low and selling the high does not always happen. They look ahead to the next potential trade, not back on their mistakes or criteria. Don't make the beginner's mistake of devoting all the money in your account to margin requirements for open positions.

Drawdowns are inevitable, so you should avoid placing yourself in such a position that a series of bad trades can wipe you out - or negate your ability to recover.

### Test drive your strategies.

Use a Lind simulated trading account to test drive your strategies before implementing them in real markets with real money. You might discover some flaws that can be easily remedied.

### See the forest, not the trees.

Don't get so wrapped up in market action that you lose your trading perspective. Many traders get thrown by fast markets or whipsaws that, in retrospect, were nothing but an intraday blip.

### Keep accurate trade records.

Losing track of which trades you have open and their current profit/loss status generally means losing money. Pay attention to your open trades. Write down each trade you make, the date it was placed, and the price at which you bought or sold. Then, check in at least daily on its profit/loss status.

### Avoid answering margin calls.

If you receive a margin call, it's probably because you've stayed with a trade too long. Don't exaggerate the situation by sending in more funds. Consider a margin call as a wake-up that you might be emotionally attached to a trade. Instead, cut losses early and often - and avoid answering a margin call.

## ADVICE FROM STRATEGISTS

### Ask for help as you need it.

Futures trading is not easy, and the "tuition" you pay in commissions and slippage can be substantial. Educate yourself as much as you can by using the resources available, such as the Lind-Waldock Web site at [www.lind-waldock.com](http://www.lind-waldock.com). But, don't be afraid to ask for help. Establish a one-on-one relationship with a good futures broker if you need some guidance.

Before you trade, you need to determine how much you can risk given the size of your account and your hoped-for profit objective. Don't risk \$10,000 on one trade if you only have \$10,000 in your account, no matter how right you think you are. That's just common sense.

We recommend allocating between 5 and 10 percent of your risk capital on any given trade. If you are a long-term trader and don't trade very often, you can risk a little more, maybe up to 10 percent. If you are a swing trader and trade a little more, you may want to risk somewhere around 5 percent.

If you are a day trader and are in and out of the market often, you may want to keep it to about 2 percent so you have enough capital to take the next opportunity that comes along, even if you have several losing trades in a row.

There are a number of tools available to help you manage risk. As a technician, I use support and resistance points to help me set my risk and reward parameters. Setting stops based on chart patterns is one way to help define risk, and another is by using options.

I won't get into details about specific options strategies, but by using options, you can define your loss more specifically than with an outright futures position, and they can be used as a hedge against a futures position as well.

Use of options as risk management tools tend to be more suitable if you are looking for a greater move over a longer time horizon (that is, if you are a swing trader or position trader).

## PRACTICAL TRADING GUIDELINES

You've heard this one a million times: Plan your trades and trade your plan. But, there's a good reason this phrase has become cliché. Developing a trading plan helps you remove emotion from your decision-making process. And, the emotions of fear and greed are always in the wings once you have money on the line. Having your own personal plan allows you to determine if subsequent setbacks are either a failure to remain disciplined, or problems with the plan itself that indicate an adjustment to the plan is due. Accordingly, any successes can be similarly assigned to either adherence to your plan or dumb luck.

Ask yourself, "At what point do I absolutely not want this position any more?" Call that your doomsday stop and get it working. If such a stop does get hit, then something is probably very wrong with your trade. Remember, stops do not guarantee against losses as markets can sometimes move quickly through them. Also, remember that stop orders can remain unfilled, as in limit moves. Picking a place to bail out of a trade is a powerful first step toward taking control of your trading.

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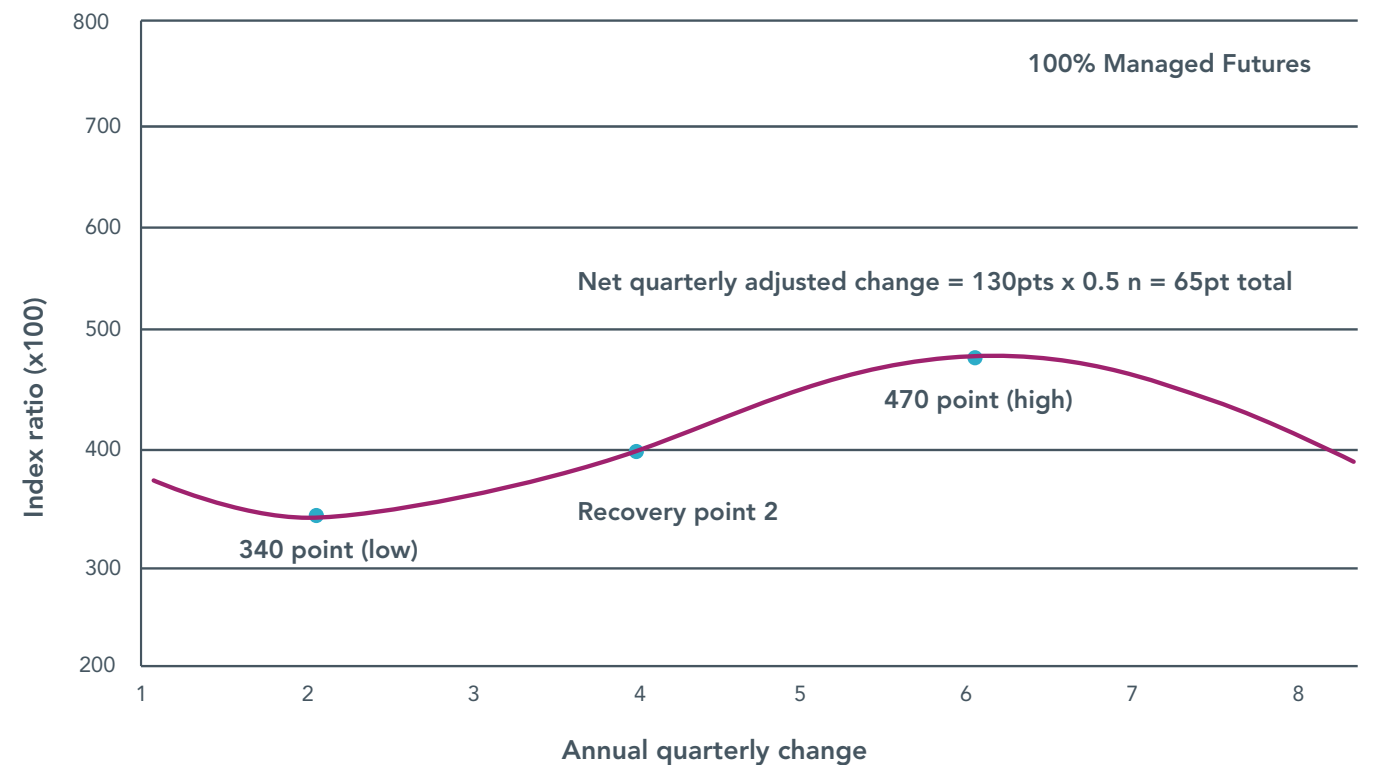
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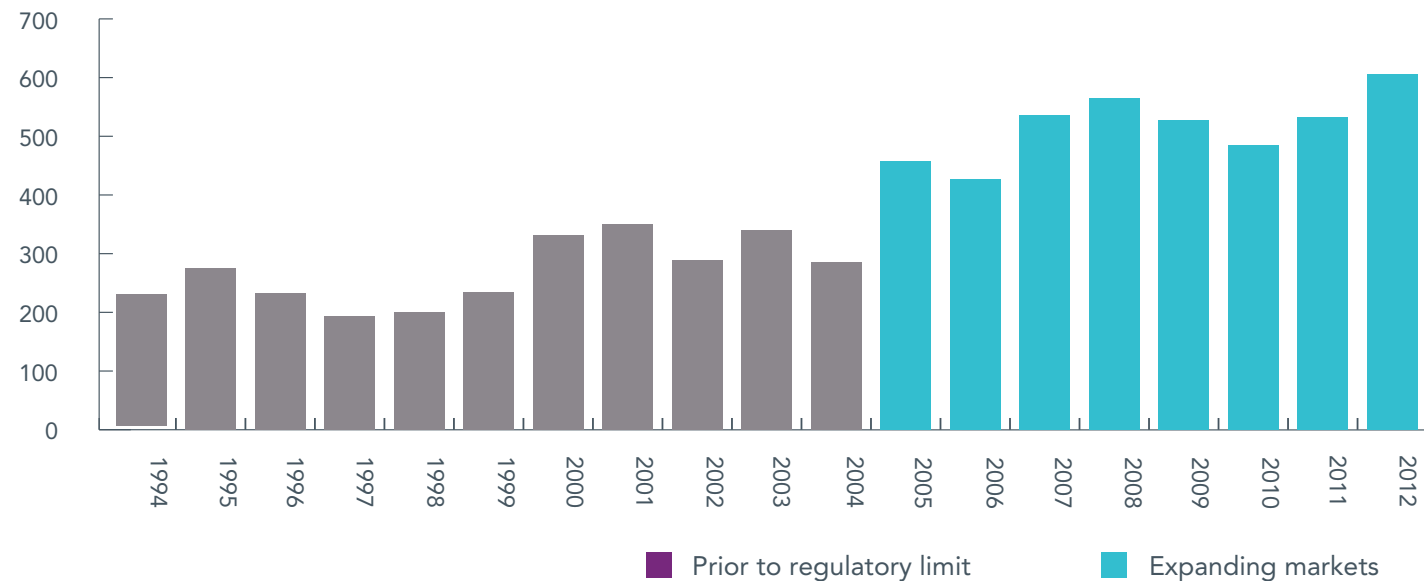
## A STRUCTURED APPROACH

While the profits are not unlimited as they are with an outright option, it is rare that a market goes straight up or down. A spread can offer a better chance of having your long option in the money as you can get closer to the underlying commodity for less out-of-pocket cost.

### Aggregate composite index (by quarter)



## Average annual values(\$)



## OPTIONS SPREADS BALANCE RISK-REWARD RATIO

Option spreads can be an effective way to play a market move up or down, but there is a tradeoff if the market were to move past the further-out call. In this case you would miss out on any potential profits above the strike price that was sold to "finance" the closer-to-the-money call. This same example can be used to position an account for a move lower in price through a put spread.

This can be done by purchasing a put closer to the underlying commodity price, while selling a put further away from the current commodity price.

# Diversify your portfolio

## COMPARE EQUITIES WITH FUTURES AND OPTIONS

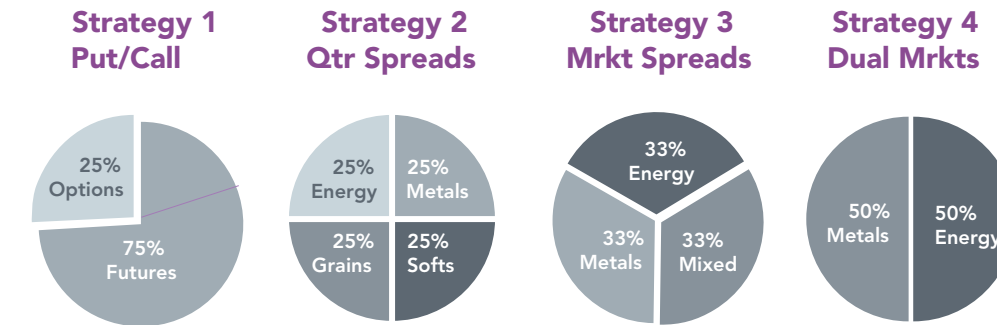
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Percent Changes: Commodities vs. Equity Stocks (Q3 2007-Q2 2010)



## MIXING FUTURES WITH OPTIONS VIA MARKET SPREADS

Option spreads are a great way to take part in an upward or downward trending market. The premise behind them is that they have defined risk and limited profit potential but can be used to get closer to the actual futures price of the underlying commodity.



	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Commodities (aggregate)	8830	8715	8915	9120
Metals market avg index	5120	5098	4896	5780
Energy market avg index	785	812	1047	1102
Grains market avg index	1209	1285	1416	1345
Softs market avg index	4791	5120	5523	7697

Futures and options trading is not for all investors and involve the substantial risk of loss. Past performance does not guarantee future results.

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An example of an option spread in the soybean market, where outright options are very expensive due to the volatility, would be to buy the November soybean \$7/ \$7.60 bull call spread.

Here you are buying the call option closer to the money (\$7 call) and selling the option that is further away (\$7.60 call). Part of the cost of buying the \$7 call is "financed" by the sale of the \$7.60 call. If you wanted to buy a \$7 call option on the November soybeans outright, it would cost you 34 cents (each cent in the beans is \$50), or \$1,700 per option.

# Trade futures with MF Global

## DIVERSIFY YOUR INVESTMENT STRATEGY WITH FUTURES AND OPTIONS

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	Common Trade Symbol	Numeric Key (Exchanges)	2010 Change (%)
COMEX Gold	GC	42	138
COMEX Silver	SV	78	75
Copper	CW	29	210
Platinum	PL	75	284
Palladium	P1	71	98
Mini Gold (NYSE Liffe)	--	0145	230
Mini Silver (NYSE Liffe)	--	0178	108
Crude Oil	CL	25	223
E-mini Crude Oil	--	0125	237

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- ① Exchange / market(s)
- ② Trading desk or online
- ③ Time and date of trade
- ④ Market price
- ⑤ Bid price submitted

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## RELATIVE STRENGTH INDEX

The relative strength index (RSIRSI), stochastics and moving average convergence / divergence (MACD), have signaled that this market is overbought and could be ready to correct.

- Typically, when I see trend indicators flashing an overbought or oversold signal, I see it as a sign of caution that a possible top (or bottom) could be coming. It may not be today, it may not be tomorrow, but I would use this as a cautionary flag in conjunction with other indicators.
- There's no doubt the trend was up in the stock indexes in May 2007, and it can be quite unwise to fight such a powerful trend. When we see an overbought reading on one of our indicators, it's not necessarily a red light, it's a flashing yellow.

- When the bulls are firmly in command, the market will typically post higher highs, higher lows and higher closes.
- There's no doubt the trend was up in the stock indexes in May 2007, and it can be quite unwise to fight such a powerful trend.
- When we see an overbought reading on one of our indicators, it's not necessarily a red light, it's a flashing yellow. Can a market go up, and continue to go up, if it's overbought? Absolutely. Can it continue, for weeks even? Absolutely.
- So, what do we do then as traders? You can tighten up your stops, you can use trailing stops, and you can protect your profits.

## Currency and Unit Abbreviations

Currencies	Exchanges		
Australian Dollar	AD	CBOE Futures Exchange	CFE
British Pound	BP	Chicago Board of Trade	CBOT
Canadian Dollar	CD	Chicago Mercantile Exchange	CME
Euro	EUR	COMEX Division of NYMEX	COMEX
Hong Kong Dollar	HKD	Eurex	EUREX
Japanese Yen	JPY	Hong Kong Exchanges	HKEX
New Mexican Peso	NMP	Italian Derivatives Market	IDEM
New Zealand Dollar	NZD	ICE Futures	ICE
Swiss Franc	CHF	Kansas City Board of Trade	KCBT

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## HOW TO DIVERSIFY YOUR PORTFOLIO

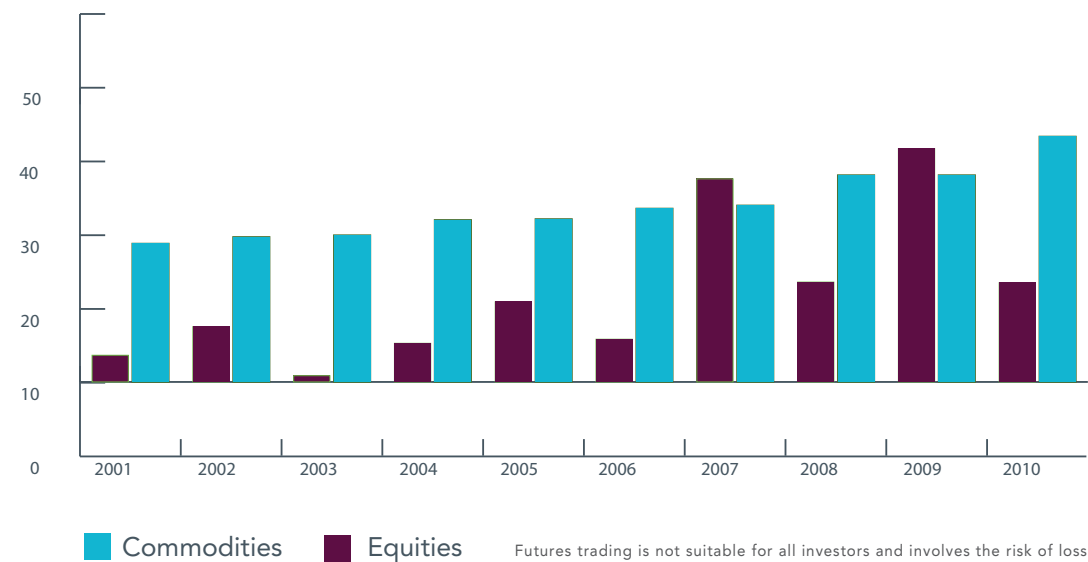
Don't hold on to a position too long in hopes of a big payout, take what you can out of the market. If you have a long position, but the signals are flashing overbought, I see it as a sign to take your profits now, even if it means you may lose a little more upside if the market continues to advance. I'd rather get out with a smaller gain than risk trying to pick the top, then losing it all if a big correction comes sooner than I expect. And eventually, markets do correct.

That's the joy in trading; trends don't last forever. They change, and there's always another opportunity. The best thing you can do in these situations is to use these technical indicators as tools that tell you it's time to be cautious, and be cognizant of your risk-management strategy. Watch for confirmation from other indicators, and market behavior, to tell you the trend has indeed turned.

## MF Global: Helping you make sense of the numbers.

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Comparing trends in commodities vs stock index prices (2001 - 2010)



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